Michigan Department of Treasury
3280 (Rev. 6-05)

What is the Single Business Tax?

The single business tax (SBT) is the only general business tax levied by the State of Michigan. It was enacted in 1976 to replace seven business taxes, including the corporate income tax. For updated information regarding the SBT, visit our Web site at **www.michigan.gov/businesstax**.

The SBT replaced net income-based taxation with value-added taxation. Value added taxes are levied on a "Services Consumed" or "Benefits Received" principle.

The SBT base consists of essentially three components: labor, capital and profit. Labor is measured by the compensation and benefits an employer pays to its employees; capital used is measured by depreciation, interest, dividends and royalties paid by the taxpayer; and profit is measured by the taxpayer's federal taxable income as adjusted for SBT purposes.

Who is subject to the SBT?

All persons engaged in a "business activity" in Michigan are subject to the Single Business Tax.

"Business activity" includes:

- The sale of real or personal property in exchange for a tangible or intangible consideration.
- Property rental, including both real property and personal property.
- Performance of a service for a fee, except services rendered as an employee or services rendered as the director of a corporation.

Persons engaged in "business activity" both within and without the State of Michigan should refer to RAB 98-1 "Single Business Tax Nexus Standards" for guidance.

Who is exempt from the SBT?

The following may be exempt from the single business tax.

- Most persons who are exempt from federal income tax under the Internal Revenue Code.
- Nonprofit cooperative housing corporations.
- Farmers producing agricultural goods.
- Partners of partnerships and shareholders of Sub S corporations. Partnerships and Sub S corporations are subject to the SBT.

  Partners and shareholders should contact the Michigan Department of Treasury for information on Michigan income tax filing requirements at 1-800-487-7000.

Who needs to file an SBT return?

Any "person" engaged in a business activity in Michigan whose allocated or apportioned gross receipts are $350,000 for tax years beginning after December 31, 2002, is required to file a return. A "person" is an individual, firm, bank, financial institution, partnership, limited partnership, co-partnership, joint venture, association, corporation, limited liability company, receiver, estate, trust or any other combination acting as a unit. Gross receipts include all receipts derived from a business activity including rental and lease receipts.

If a business operated less than 12 months (and is not a sole proprietorship), it must annualize allocated or apportioned gross receipts to determine whether it meets the filing requirement.

Special circumstances apply for controlled groups. Members with allocated or apportioned gross receipts of $100,000 or more may be required to file.

What if the allocated or apportioned gross receipts are less than $350,000?

If allocated or apportioned gross receipts are below the filing requirement, there is no legal obligation to file a return.

How is the SBT calculated?

The SBT liability starts with the calculation of the total tax base. For most taxpayers the primary components of the tax base are compensation, business income as defined for federal tax purposes, and additions or subtractions to business income.

- Compensation includes salaries, wages, employee insurance plans, retirement benefits, and pension and profit sharing plans. FICA, unemployment insurance, worker's compensation, and part of employer medical costs are **not** included in compensation.
- Additions include the depreciation of tangible assets, taxes based on income, net operating loss carryover or carryback and any dividend, interest and certain royalty expenses taken on the federal return.
- Subtractions include dividend, interest and certain royalty income reported on the federal return.
- For tax years beginning prior to 1/1/2000, deductions were allowed for the cost of capital assets acquired in the state during the tax year. An addition is required for the proceeds from the sale of such items in the year the sale takes place. For tax years beginning after 12/31/99 the capital acquisition deduction was replaced by an Investment Tax Credit.

  For more information about the Investment Tax Credit, visit our Web site at **www.michigan.gov/treasury**.

  The Frequently Asked Questions (FAQs) may help answer some of your questions or form C-8000ITC, Single Business Tax Investment Tax Credit and instructions, may also be helpful.

- There are numerous other exemptions, reductions and credits that may be allowed. These modify the value-added nature of the SBT and reduce the tax liabilities for taxpayers that qualify to use them.

Once the total tax base is determined, multiply it by the tax rate, then subtract any eligible credits. (See the example for a description of the Single Business Tax calculation.)

What is the tax rate?

The tax rate for a return covering the 12 month period ending December 31, 2004, is 1.9 percent. For prior year tax rates, see the Single Business Tax Rate Tables located on our Web site at **www.michigan.gov/treasury**.

What credits are available?

The SBT offers a number of credits to eligible taxpayers, including the Small Business Credit, the Unincorporated/S corporation Credit, the Community Foundation Credit, the Homeless Credit, the Public Contribution Credit, the Public Utility Property Tax Credit, the Michigan Economic Growth Authority Credit, the Brownfield Redevelopment Credit, the Apprenticeship Credit, the Renaissance Zone Credit, the Investment Tax Credit, the Low-grade Hematite Pellet Credit, the Michigan Historic Preservation Tax Credit, the Next Energy Payroll and/or Business Activity Credit and the Pharmaceutical Credit. For more information about these credits, call 517-636-4700 or visit our Web site at **www.michigan.gov/treasury.**

Which SBT form should be filed?

Businesses with a tax liability for SBT must file using either a *Single Business Tax Annual Return* (C-8000) or if eligible, a *Single Business Tax Simplified Return* (C-8044).

When is the return due?

The return is due on the last day of the 4th month after the tax year ends. It must be filed for the same tax period covered by the federal income tax return.

How is an extension requested?

An *Application for Extension of Time to File Michigan Tax Returns* (Form 4), must be filed by the original due date of the return, with full payment of the estimated tax due.

An extension of time to file is not an extension of time to pay. Businesses are required to include an estimated tax payment with the form, or have sufficient estimated tax payments made during the year.

Extension requests received without payment on the account will not be honored. If no tax is owed, no extension is required to avoid penalty and interest.

Who must file SBT quarterly tax estimates?

If the estimated liability for the tax year is over $600, quarterly estimates must be filed with payment. For calendar year taxpayers, quarterly returns are due the last day of April, July, October and January. For fiscal-year filers, quarterly returns are due the last day of the first month after each quarter.

How does the SBT apply to firms doing business in more than one state?

Firms doing business in Michigan and in other states apportion their tax base to Michigan using a formula based on their percentage of property, payroll and sales in Michigan. Financial organizations and transportation companies use a single factor formula based on gross business and revenue miles, respectively.

Does the SBT recognize the unitary method of taxation?

No. Only firms actually engaged in business activity in Michigan are subject to SBT. A foreign subsidiary or parent corporation with no Michigan business activity is not subject to SBT.

How does a business request forms?

On the Internet at: **www.michigan.gov/treasury**

By telephone: 1-800-367-6263

If requesting a book for a tax year prior to 1998, be sure to specify corporate or noncorporate book and tax year requested.

For more information contact:
Michigan Department of Treasury
P.O. Box 30059
Lansing, MI 48909
(517) 636-4700
FAX: (517) 636-4488
Deaf, hearing- or speech-impaired persons may call (517) 636-4999 (TTY)
For more new business information, contact the Michigan Economic Development Corporation at (517) 373-9808.

EXAMPLE*

This example is for a 100% Michigan taxpayer with a 12 month return ending 12/31/2004.

Federal Taxable Income	$ 50,000
Compensation	+ 252,000
Depreciation	+ 70,000
Interest Paid	+ 28,000
Tax Base	$400,000
Recapture of Capital Acquisition Deduction	+ 20,000
Adjusted Tax Base	$420,000
Tax Rate	x .019
Tax Before All Credits	$7,980
Investment Tax Credit (ITC) (a)	- 702
Tax After Investment Tax Credit	$7,278
Small Business Credit (b)	- 2,656
Tax After Credits**	**$4,622**

**Instead of this lengthy calculation, businesses that are eligible for the small business credit may choose to pay an alternate tax of 2 percent of adjusted business income. The alternate tax would equal $2,400 for this calculation. The Investment Tax Credit cannot be taken if this calculation is used.

*This example and narrative are not meant as a detailed guide to the SBT calculation. In the interest of clarity, some details were omitted. Consult the SBT instruction booklet for the precise calculations.

DISCLAIMER: This example was prepared using the law in effect for the 2004 tax year.

(a) Investment Tax Credit (ITC) Calculation

Assume adjusted gross receipts of $5,100,000 and net capital investments of $100,000.

Investment Tax Credit =	
Net Capital Investment	$100,000
x	x
SBT Tax Rate For Year	**OR**.019 (1.9%)
.023	.023 (2.3%)
x	x
ITC Adjusted Gross Receipts Percentage	.0085 (.85%)
=	
Investment Tax Credit	$702

(b) Small Business Credit Calculation

Profits	$50,000
Owners' Compensation	+ 70,000
Adjusted Business Income (ABI)	$120,000
	100%
[$120,000 / (45% x $420,000)]	- 63.5%
	36.5%
[Tax After Investment Tax Credit]	x $7,278
[Small Business Credit]	$2,656

THE SBT — A NARRATIVE SUMMARY OF THE CALCULATION*

Sum Of

- *Federal Taxable Income* — profits
- *Compensation* — wages, salaries, benefits, etc.
- *Depreciation* — as deducted on federal income tax return.
- *Net Interest Paid* — interest paid less interest received.

Equals:: Your Tax Base
Multiplied By

- *Apportionment Factor* — weighted sales (90%), property (5%) and payroll (5%) factors.
  Payroll Factor — proportion of total payroll in Michigan.
  Property Factor — proportion of total property in Michigan.
  Sales Factor — proportion of total sales in Michigan.

Equals: Apportioned Tax Base
Plus

- *Recapture of Capital Acquisition Deduction* — recapture any depreciable real or personal property that you disposed of during the year which was acquired in tax years beginning on or after January 1, 1976 and before January 1, 2000.

Minus

- *Statutory Exemption* — an exemption of $45,000 which is reduced for taxpayers with modified business income exceeding $45,000, declining to $0 when modified business income exceeds $67,500.
- *Business Loss Deduction* — loss carryovers from previous years.

Equals: Adjusted Tax Base
Minus

- *Excess Compensation Reduction* — the amount by which total compensation exceeds 63 percent of the tax base before apportionment, ***OR***
- *Gross Receipts Reduction* — the amount by which the adjusted tax base exceeds 50 percent of adjusted gross receipts.

Multiplied By: Tax Rate in Effect
Equals: Tax Before All Credits
Minus

- *Investment Tax Credit (ITC)* — The amount of the credit is calculated by multiplying net capital investments made in Michigan during the taxable year by an annualized percentage determined by dividing the SBT tax rate in effect for the year by 2.3%. The result is multiplied by a percentage based on adjusted gross receipts.

Equals: Tax After Investment Tax Credit
Minus

- *Small Business/Low Profit Credit* — for firms with adjusted business income below $475,000, gross receipts below $10 million and adjusted business income to any business owner below $115,000. The credit may be up to 100 percent of liability and declines as business income increases. Eligible businesses claiming this credit may choose to pay an alternate 2 percent tax on adjusted business income (net income plus compensation to active owners plus loss carryovers.)
- *Other Credits* — see *What Credits are Available?*

Equals: Single Business Tax Liability